**City of Philadelphia** **City of Phoenix** **City of Atlanta**

November 13, 2008

Hon. Henry M. Paulson, Jr.
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Paulson,

We are facing a transformational moment in the nation, where the decisions we make today to address the current economic crisis will define the future of our cities for generations to come. The world is watching the start of arguably the worst economic and financial crisis since the Great Depression with understandable trepidation. We who run some of America's larger cities are dealing with the economic damage wrought by the credit and housing crises as we write this to you: The economic contraction precipitated by these twin crises is forcing us, and mayors all across the country, to dramatically reduce programs and services for millions of residents we serve.

Over the past three weeks, Philadelphia, Chicago, Phoenix and New York announced plans to close sizable budget gaps that were a direct result of the recession resulting from the credit crisis. When we are finished re-balancing our budgets, fewer libraries will be open, police and fire services will be reduced, senior and youth services will be reduced, critical tax cuts designed to enhance our competitiveness will be placed on hold and thousands of employees will find themselves without a job. We believe similar actions will be implemented by most local governments within the next two to three months.

As you and others struggle with the appropriate approach to dealing with this unprecedented credit crisis, very little has been said about the consequences of this crisis on U.S. cities. This deeply concerns us. Cities will disproportionately bear the brunt of the dislocations caused by the credit crisis and a contracting economy, unless the Federal government steps in to assist us.

There are several reasons why the Federal government should provide assistance to city governments:

First, reduced public spending resulting from local government service reductions and layoffs, along with tax increases, necessitated by the current economic crisis, will serve to slow economic growth and may cancel any positive effects of new federal stimulus initiatives. Second, we worry that any new stimulus funds, while sorely needed, will be delayed in reaching us and may come too late in the economic cycle to mitigate the impacts of the recession. Third, the assistance currently being discussed for states will do very little to assist cities directly, since the focus of these discussions is on state and federal administered programs like Medicaid, unemployment insurance and Food Stamps. Finally, cities are the population centers and engines of innovation of this nation and their success during these economic times will ensure that our country emerges from this crisis with a stronger and more vibrant economy.

Mr. Secretary, we write to urge you to consider assisting our nation's cities through this very difficult time. We are not looking for a handout; we are looking for a hand up. Had the credit crisis not hit us, we would have taken advantage of private capital markets to accomplish these needs. We are outlining three proposals below that you have the authority to implement immediately and do not require additional appropriations from Congress. We ask that the Treasury Department exercise its authority to use a portion of the $700 billion Troubled Asset Relief Program (TARP) to:

1. *Provide loans to city governments that operate pension systems to cover their unfunded accrued actuarial liability;*
2. *Capitalize an Urban Infrastructure Re-Investment and Development Fund to provide $50 billion in loans and grants to cities for infrastructure investments; and*
3. *Provide short-term loans (one year) for cities to address cash flow needs resulting from an inability to borrow.*

***Public Pension Assistance***

Local government public pension funds, which are the primary retirement income vehicle for police officers, fire fighters, and municipal employees, have felt the impact of the turmoil in global financial markets most acutely and directly. Philadelphia's recent experience is illustrative: The Philadelphia pension system lost over $650 million in the first nine months of this year. That loss increased Philadelphia's projected budget costs for pension payments by $300 million between FY 10 and FY 13.

The losses experienced by Philadelphia's pension system are mirrored in most, if not all, public pension systems in the United States. To counter these impacts, we propose the Treasury create a lending facility whereby local governments would borrow the current unfunded accrued actuarial liability (UAAL) for their system from the U.S. government and repay that debt at the rate of the 30 year Treasury plus 100 basis points.

If this proposal were to be implemented, cities would be able to fully fund their pension systems. The credit crisis has all but eliminated the ability to borrow in private capital markets for this purpose, a substantial market failure that has been given almost no attention. In Philadelphia's case this proposal could save the City $347 million over the next four years. These savings would then be used to preserve services and spending, providing an immediate boost to the City and state economies in this recession.

***Infrastructure Re-Investment and Development***

Cities have a significant need to rebuild and replenish our existing physical infrastructure of bridges, roadways, streets and facilities. In the current economic environment, any economic stimulus that can be provided at the local level by increased federal spending on investments that enhance the productivity of private sector employees and capital, will be critical in dampening the employment and spending contractions associated with the current recession.

Therefore, we propose that Congress set aside $50 billion of **TARP** to capitalize an Urban Infrastructure Re-Investment and Development Fund, managed by the Treasury.

This Fund could consist of a grant component for those cities hard pressed to take on debt and a loan component for those cities able to take on debt. We suggest that any assistance provided in this fashion would be as flexible as possible in order to ensure that we could spend these funds in the next six months. The loan component of the fund, capitalized at $25 billion, would provide low-interest loans, to cities (30 year Treasury rates plus 50 basis points) for similar infrastructure investments. Project loan funds could be repaid from growth in property tax assessments above a baseline established prior to the commencement of the loan, much in the manner that tax increment financing for public projects works in many states across the country.

Eligible infrastructure projects would include but not be limited to:

-- Replacement and repair of bridges, streets, roadways, mass transit right of ways and vehicles
-- Retrofitting of municipal buildings to make use of renewable energy and create more energy efficient operations
-- Use of green building practices in constructing or retro-fitting any new city facilities
-- Creation of hybrid vehicle fleets for municipal operations and mass transit
-- Installation of security cameras in cities to address crime
-- Investments in City Information and communications technology, such as broadband or wireless infrastructure, handheld devices, and internet based services that would enable city governments to improve the productivity of the workforce and improve service delivery to citizens

***Large City Short-Term Borrowing Facility*** –
The necessity for municipalities to access capital for cash-flow purposes is a critical function in the budget process. We would propose the creation of a short-term (less than one-year) borrowing facility for cities to address cash-flow needs. These cities would be eligible to borrow directly from the Treasury for short-term cash flow at rates that were 50 basis points above the 1 year Treasury rate. This would enable cities to access capital for cash-flow while minimizing their borrowing costs. Treasury and the U.S. government would be repaid at a premium above the one-year treasury rate.

Mr. Secretary, we understand that these proposals reach you at an increasingly uncertain time for the nation and the Federal Government. Please understand that we who lead some of America's largest cities are also facing this coming economic challenge with concern. We lack the appropriate tools, tools which you have at your disposal, to address it properly. We cannot run deficits and use public spending to prop up a collapse in private spending or investment. We cannot issue debt to continue spending beyond our current receipts, since we are at the mercy of capital markets that are in an incredibly uncertain period. We ask that you give these proposals serious consideration as you contemplate policy responses that use this transformational moment to create a stronger United States.

Respectfully,

Michael A. Nutter
Mayor
City of Philadelphia

Phil Gordon
Mayor
City of Phoenix

Shirley Franklin
Mayor
City of Atlanta

cc: The Honorable Nancy Pelosi
The Honorable John Boehner
The Honorable Barney Frank
The Honorable Spencer Bachus
The Honorable Harry Reid
The Honorable Mitch McConnell
The Honorable Christopher J. Dodd
The Honorable Richard C. Shelby